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THE CUSTODY OF STATE FUNDS.*

In general two methods have been employed by the United States Government in keeping the public money. The one is known as the "bank depository system," the other as "the independent treasury system." Under the former system the public money is deposited in, and the fiscal operations of the government are conducted through, a bank or banks. Under the latter system there is, in theory, no connection with banks. Since 1846 the government money has been deposited mainly in the treasury and sub-treasury vaults under the provisions of the Independent Treasury Law. This system was slightly modified in 1863 by the law which established our national banking system. By the provisions of this act those national banks so designated might, under regulations prescribed by the Secretary of the Treasury, be considered United States depositories, with power to receive and disburse all government moneys except customs. Thus we have in the United States to-day a combination of the "independent treasury" and the "bank depository" system.

Mr. Howell Cobb, Secretary of the Treasury from 1857 to 1860, and an ardent supporter of the independent treasury system, recommended in his report for 1858 and 1859 that each of the States adopt this system. Professor Kinley,

* The material for this paper the writer collected during the year 1894, while preparing for what is called the Joint Debate, at the University of Wisconsin. The facts and figures here set forth were obtained mainly through personal correspondence and from the annual reports of the State Treasurers of the several States. The material collected has been arranged in tabular form and is added to this paper as an appendix.

I am indebted to the State Treasurers of the several States, for valuable material furnished, but regret that in several instances repeated solicitation has not yet enabled me to secure the desired information. I am also especially indebted to Dr. R. T. Ely for helpful criticisms.

in referring to this in his work on "The Independent Treasury," says: "Ohio seems to have been the only State that seriously contemplated doing so, but the act to separate the State finances from the banks after passing the House was voted down in the State Senate." A careful investigation, however, shows that this statement is incorrect; we find that seven of our States are to-day employing this very system. The laws of Ohio, California, Kansas, Mississippi, Nevada, Texas, and Indiana require that all State moneys shall be kept in the vaults of the Treasury Department.

There can be little doubt that these State independent treasury laws have been modeled after our national system, and it is not at all to be wondered at, that during the vicissitudes of "wild cat" banking the States should have adopted what was then the safest method of keeping the public money. It is strange, however, that to-day in the face of the experience of forty other States and Territories these few still persist in maintaining so antiquated a system of public finance.

The experience of those forty States and Territories shows conclusively, I believe, the superiority of the "bank depository system." For the last twenty years it has been used with almost absolute security to the public funds. There has in that time, as accurately as I have been able to determine, been lost to the States through this system only $36,915.19. In 1892 Massachusetts lost $109.75. During the last forty years New Jersey has lost $19,204.35. In the seventies West Virginia lost $16,601.07. True, there is at present about $416,000 of State money tied up in failed banks, due to the crises of 1890 and 1893, but a very small percentage of this money will ultimately prove a loss, the States being fully secured by personal and other bonds. It is a significant fact that in every case where a loss has occurred by depositing the State money in banks, no security has been required from the depositories other than that given to ordinary depositors.

The laws of the several States provide for various methods of securing the public money. The laws of Rhode Island, Connecticut, Delaware, Idaho, Louisiana, Maine, Massachusetts, Nebraska, New Hampshire, New Jersey, South Carolina, Vermont, Wyoming, and Utah provide only for the security given to ordinary depositors. In certain of these States, as in Massachusetts, the amount of money deposited in any one bank is limited to forty per cent of the capital stock. The laws of Arizona, North Dakota, South Dakota, and Washington hold the State Treasurer responsible for the safety of the deposits, and he may require additional security from depository banks at his option. The laws of Colorado, Florida, Georgia, Iowa, Kentucky, Maryland, Michigan, Minnesota, Montana, New Mexico, North Carolina (State banks), West Virginia, New York and Wisconsin require State depositories to give bond or bonds in double the amount of the State deposits. In certain of these States the security consists of personal security, prior lien on the assets of the bank, a deposit of collaterals, or a combination of two of them. It is enough to know that each of these methods has proved an effectual means of securing the State moneys against losses from bank failures.

Under the depository system the daily balances, in many of the States, are a source of revenue to the State; the depository banks paying a low rate of interest on daily or monthly balances. This rate varies in different States from one and one-half per cent to four per cent. The revenue from this source during the last year must have exceeded four hundred thousand dollars. In Louisiana the depository banks pay the State a bonus of $10,000 for the use of the State money. The State Treasurer of Delaware is required to deposit the State money in the "Farmers' Bank" and its branches, in which the State owns three-fifths of the stock and the legislature elects nine of the directors. No interest is paid on such deposits. The bank depositories

of Iowa, Montana, New Jersey, Oregon, Pennsylvania, South Carolina, and Tennessee pay no interest on the public deposits. The average combined surplus in these States amounts to over six millions of dollars. These States lose over $180,000 per annum by not requiring interest on these balances. The depository banks undoubtedly secure the remuneration which should accrue to the States.

The laws governing the selection of depository banks also differ in the several States. In some States, Delaware for example, the banks are designated by law. In other States, as in Florida, the banks bid for the money. The banks offering the highest rate of interest are designated as public depositories. In Georgia the deposit of State money is limited by law to banks located in certain cities. But in a majority of the States, banks are designated as depositories of the public money at the option of the State Treasurer, with or without the concurrence of a State Financial Board. In West Virginia the State Board of Public Works designates the State depositories.

The most striking feature of the "bank depository" system is its lack of uniformity. Yet in spite of this it has given almost universal satisfaction. The money has been kept by the banks with nearly perfect safety. Except in several States (Iowa, Montana, Tennessee, and South Carolina) for a short time during the panic of 1893 the banks have never found any difficulty in meeting the drafts of the State Treasurer. The regulations governing the State moneys in the several States are undoubtedly, as a whole, well adapted to the needs of the commonwealth in which they are in operation. But that greater losses have not occurred in some States having loose depository laws, has been due rather to the excellency of our national banking system than to the merits of such depository laws.

In order to secure the perfect safety of the public money the banks designated as State depositories should be required to furnish approved security in the shape of national, State,

or municipal bonds, or collaterals equal to double the amount of the State money held. Further, there seems to be no reason why the banks should not be required to pay to the State a low rate of interest on daily or monthly balances, nor why the State money should not at all times be subject to the draft of the State Treasurer. The former will secure to the State a nearly constant revenue, and the latter insures at all times the prompt payment of the State money.

This method of keeping the State money facilitates the collection and payment of the public revenue. In some States the depository banks disburse and collect the State moneys free of charge, and in all cases they use the money to enlarge their discounts. As stated above, the banks have found but little difficulty in meeting the drafts of the Treasurer on demand. Mr. Samuel M. Tate, of North Carolina, says that the banks having had the deposits of the State regularly for several years become acquainted with the needs of the department, and use the deposits to enlarge their discounts, maturing the same at such a time as to be in readiness to meet the Treasurer's checks. This is found to be the experience of most of the State Treasury Departments. The policy pursued by the State of Tennessee, where it has been the custom to leave in the county, where there is a depository, the revenue collected from that county, until actually needed by the State, seems eminently practical and advisable. Mr. E. B. Craig, the present Treasurer of that State, says he considers this a safe method of keeping the funds of the State, and certainly believes it to be beneficial to the people.

Such in brief has been the operation of our State bank depository system. Now let us examine the operation of the State independent treasury system. The seven States employing this system have in their vaults on an average a combined surplus of from four to nine millions of dollars. In Texas the surplus varies from almost nothing to three-fourths of a million dollars; in California the surplus varied

during eighteen months, from January 1, 1891, to June 3, 1892, from $2,319,931 to $5,167,020; in Kansas the average surplus is about $400,000; the balance in the treasury vaults of Mississippi averages about $400,000; the treasury surplus in Nevada averages about $500,000; in Ohio it averages nearly $800,000, and in Indiana it is nearly $400,000.

Mr. W. B. Wortham, State Treasurer of Texas, says that a proposition was made in the last legislature to establish State depositories (national bank), but it was overwhelmingly defeated. He says further that the disbursements of their treasury are not irregular and therefore have no injurious effect on business.

Mr. J. R. McDonald, State Treasurer of California, in his report for 1892 says: "I have never been able to see the necessity or propriety of the State having two or three million dollars piled up in her vaults year after year, without any benefit to the State and positive detriment to the people; for the withdrawal of this large sum of money from circulation must tend to create a stringency in the money market and to that extent cripple the business interests of the State as well as enhance the price of money to the borrower." If this surplus were deposited in banks the rate of interest would not only be rendered more uniform thereby and the market made easier, but at the rate of three per cent there would have accrued to the State from that source alone a revenue of over $75,000 per annum, without the slightest detriment to the public service.

In Kansas the State moneys have always been kept in the treasury vaults. Mr. W. H. Biddle, the State Treasurer, says that occasional bills have been introduced into the Legislature to provide for bank depositories, but have invariably been defeated, there being no pronounced sentiment against this system of "bolts and bars." He further says, "I do not consider our system of keeping funds in vaults better than State depositories since it keeps a large amount of money out of circulation." This system has been

condemned by treasury authorities in the State of Mississippi, but no pronounced sentiment has been directed against it. Mr. G. W. Richards, the State Treasurer of Nevada, states that there has never been any move in the direction of depositing the State money in banks, but he gives it as his opinion that the public funds should be so handled that some revenue may result.

Mr. William T. Cope, State Treasurer of Ohio, says: "The average balance in the treasury will probably be above one-half a million dollars for many years to come. The keeping out of circulation so large a sum of money, together with the large amounts locked up twice each year by the county treasurers have the effect to derange business and make the rates of interest to those borrowing money higher. I believe that a law authorizing State and county depositories would be a great benefit to the people of the State, and that the State itself would be benefited financially to an amount sufficient to pay all the expenses of the Treasurer of State's department."

Indiana keeps the public money in vaults by the silent acquiescence of the people. Kentucky had a similar system up to 1891, when H. S. Hale became State Treasurer. An old banker himself, he made a strenuous effort to have the treasury balance kept where it would be earning a revenue for the State. During the two years of his office up to 1893, the balance was deposited in banks, netting the public over $26,000 in interest. In 1893 the Territory of New Mexico passed a depository law, "to which, with some slight amendments," says Treasurer Palen, "there can be little objection." The law requires no additional security from depository banks, and it is to this feature he objects. Bonds or collaterals should be required.

We see, then, that although at one time a considerable number of the States and Territories enacted laws modeled after our national independent treasury system, to-day only seven retain this system, and in these seven States we find

that a pronounced sentiment is springing up against the system.

To a lesser degree the State independent treasury laws have all the evils of our national system. The irregularity in receipts and disbursements has been recognized as injuriously affecting business. The money withdrawn from circulation causes a rise in the rate of interest, creates a stringency in the money market, and this stringency occurs at the worst time in the year being directly after the collection of taxes. The common sense policy would be to return this money into circulation as soon as possible. But under the "vault system" it is not returned except in the ordinary course of the State expenditures. I find that in the majority of the States the surplus is greatest in the months of January, March, April, and May. Thus the money is drawn from circulation just when money is needed for the spring demand.

The accumulating of so much currency in the vaults of the State treasurers is attended with more or less danger from bank robbers and burglars. Several robberies of that nature have occurred of late years in California. The treasury of that State with its four or five millions of dollars is constantly under a special guard, and last winter this guard was largely increased after the annual payment of taxes. On account of this danger the treasurers have great difficulty in securing good bondsmen. These evils, the direct outcome of the vault system, may be easily avoided by depositing the State and county funds in banks.

The State will have no difficulty in finding banks ready and willing to take the State moneys, giving ample security in the shape of bonds and collaterals, and paying interest at the rate of two or three per cent per annum. The State Treasurer of New York says that the banks are eager to secure the public deposits, paying from one and one-half per cent to three per cent on daily balances, and holding them constantly subject to the demand of the treasurer.

The facts herein presented go to substantiate the conclusions drawn by Professor David Kinley in his work on "The Independent Treasury;" that the system has been outgrown in this country; that there is no necessity for it, and that there is no good reason for its longer continuance. On the other hand we find many reasons for discontinuing such a system. In our own States we find the two systems working side by side. The independent treasury is the object of severe criticism. The bank depository system meets with nearly universal approval, and there seems to be little question that it should be substituted for the independent treasury in every State where that system exists.

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APPENDIX.

STATE.	Average Balance.	Where Kept.	Rate of Interest.	Security.
Arizona		Banks		Treasurer gives bond for the territory in an amount fixed by law.
Arkansas . . .	$400,000 to $500,000.			
California . . .	$5,167,020 to $2,319,931.	Treasury vaults		Bolts and bars. Special police guard.
Colorado	$600,000.	Banks	4 per cent, payable quarterly.	Banks give independent bond.
Connecticut . .	$400,000 to $700,000.	Banks	3 per cent .	Same as for ordinary depositors.
Delaware. . . .		Farmers' Bank and branches.	None . . .	None
Florida	$150,000.	Banks	2½ per cent	National, State, county or municipal bonds.
Georgia		Banks		Prior lien on assets of bank and bond.
Idaho.		Banks		None
Indiana	$400,000.	Treasury vaults		
Iowa	$200,000 to $300,000.	Banks in Des Moines.	None . . .	Bonds to double the amount of deposits.
Kansas	$500,000	Treasury vaults		
Kentucky . . .	$200,000 to $500,000.	Banks		Bond with personal security.
Louisiana . . .		Two banks in Baton Rouge and New Orleans.	$10,000 bonus.	None
Maine	$150,000 to $400,000.	Banks in the State and Boston, Mass.	2 per cent from Boston banks. Nothing from banks in State.	No special security.
Maryland . . .	$400,000.	Three national banks.	2 per cent.	$500,000 bonds

APPENDIX.

Depositories. How Chosen.	Losses.	When Surplus is Largest.	To Whom Interest Accrues.	Difficulties experienced by Banks in Meeting the Treasurer's Drafts.
By Treasurer .	None			None.
Fixed by law .		After tax collections.		
By Treasurer .	None	After tax collections.		
By Treasurer .	None	December . . .	State	None.
Fixed by law .	None			None.
Banks offering highest rate of interest.	None	April	State	None.
Cities fixed by law. Banks designated by the Governor.	None		State	None.
.	None.			
Fixed by law .	None.			
By Treasurer .	None	April, May and October.		None.
Fixed by law .				
By Treasurer .	None	November 1 to March 1.	State	None.
.	None		State	
By Treasurer .	None	January 1 and July 1.	State	None.
By Treasurer, approved by Governor.	None	June 1	State	None.

APPENDIX.—*Continued.*

STATE.	Average Balance.	Where Kept.	Rate of Interest.	Security.
Massachusetts .	Varies widely. $5,000,000 to $10,000,000.	Banks or Trust Companies.	2 to 2½ per cent.	Deposits not to exceed 40 per cent of capital stock.
Michigan	$600,000.	Banks	3 per cent.	Nominal bond
Minnesota . . .	$2,100,000.	Banks	3 per cent on daily balances.	Bond equal to 200 per cent of deposits.
Mississippi . . .	$50,000 to $400,000.	Treasury vaults		
Missouri	$200,000 to $2,000,000.	Banks	Current rate.	Bond equal to 25 per cent of money deposited, and U. S., Missouri or St. Louis Bonds equal to amount of deposits.
Montana	$193,544.	Banks	None . . .	Collaterals and bonds.
Nebraska . . .	$627,000	Banks	3 per cent.	None
Nevada	$100,000 to $750,000.	Treasury vaults		
New Hampshire	$300,000 to $400,000.	Banks	2 per cent on deposits in Boston banks.	No special security.
New Jersey . .	Little, except at close of fiscal year.	Banks	None . . .	None
New Mexico . .	$175,000.	Banks	3 per cent.	Bonds to double amount of deposits.
New York . . .	$1,548,669.	Banks	1½ to 3 per cent.	Bond equal to two or three times amount of deposits.

APPENDIX.—*Continued.*

Depositories. How Chosen.	Losses.	When Surplus is Largest.	To Whom Interest Accrues.	Difficulties experienced by Banks in Meeting the Treasurer's Drafts.
Chartered by State.	$109.75	December . . .	State	None.
By Treasurer .	None	June to November.	State. General Fund.	Banks are given from 15 to 30 days' notice and are always prepared
.	None. $150,000 tied up, but no danger of loss.		State	Some money tied up.
Fixed by law .				
Treasurer, approved by Governor and Att'y-General.	None	January 1 to May 1.	State	None.
By Treasurer .	None	After tax payment in December.		A short time in 1893.
By Treasurer .	$236,000 tied up.		To the several State funds.	Some by bank failures.
Fixed by law .				
By Treasurer .	None	October to January.	State	None.
By Treasurer .	In 40 years only $19,204.35.	November 1 . .		None.
Governor, Auditor and Treasurer.	$31,000 tied up.	February and August, and January and July.	Territory . .	None.
By Treasurer .	None		State	None.

APPENDIX.—*Continued.*

STATE.	Average Balance.	Where Kept.	Rate of Interest.	Security.
North Carolina .	$100,000 to $300,000.	Banks	3 per cent on time deposits.	Collaterals from State banks.
North Dakota .	$146,817.	Banks	3 per cent.	Option of Treasurer.
Ohio	$800,000.	Treasury vaults		
Oregon	$200,000.	Banks	None . . .	
Pennsylvania .	$4,000,000 to $6,000,000.	Banks	None . . .	Bonds
Rhode Island .	Nothing to $500,000.	Banks	2½ to 3 per cent.	No special security.
South Carolina .	$100,000.	Banks	None . . .	None
South Dakota .		Banks		By Treasurer . .
Tennessee . . .	$350,000.	Banks	None . . .	Certified bond deposits limited to 25 per cent of capital.
Texas	Nothing to $750,000.	Treasury vaults		
Utah	$50,000 to $150,000.	Local banks . .	None . . .	None
Vermont	$489,655.	Banks		None
Virginia	$300,000.	Banks	Nominal rate on daily balances.	Personal security.
Washington . .	$275,890.	Banks		Option of Treasurer.
West Virginia .	$723,567.	Banks	3 per cent.	Deposits not to exceed three-quarters of bond. Bond not less than $50,000.
Wisconsin . . .	$600,000 to $800,000.	Banks	2½ per cent. Fixed by board of deposits.	Sufficient bond .
Wyoming . . .	$150,000.	Banks		None

APPENDIX.—*Continued.*

Depositories. How Chosen.	Losses.	When Surplus is Largest.	To Whom Interest Accrues.	Difficulties experienced by Banks in Meeting the Treasurer's Drafts.
By Treasurer .	Some loss. Amount not known.	After tax payments.	State	None.
By Treasurer .	None	January and April, July and October.	General fund.	None.
Fixed by law .				
By Treasurer .	None	July, August and September.		None.
By Treasurer .	None	July and August		None.
Banks giving highest rate of interest.	None		State.	None.
State Financial Board.	None since 1876.	December and March.		None, except in panic of 1893.
.	None			
By Treasurer .	None	March, April and May.		None, except for a short time in 1893.
Fixed by law .				
By Treasurer .	None	December, January, February and March.		None.
By Treasurer .	None.			
.	None		State.	
By Treasurer .	None	Laws are silent on question of management of State funds.		
By State Board of Public Works.	$16,601.07 in the seventies.		State	None.
By board of deposits.	None		State	None.
.	None.			